

**PROCEEDINGS BEFORE MICHAEL D. RILEY
ACTING INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA**

IN RE: MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC.

Administrative Proceeding No.: 11-AP-FINCON-02009

**AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION
AND DIRECTING ACTION**

COMES NOW Michael D. Riley, Acting Insurance Commissioner of the State of West Virginia (hereinafter "WVOIC"), and issues this Agreed Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2010, of Mountaineer Freedom Risk Retention Group, Inc. (hereinafter referred to as "Company") based upon the following findings, to wit:

JURISDICTION

1. Michael D. Riley is the Acting Insurance Commissioner of the State of West Virginia and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was incorporated on October 19, 2006 and authorized by the Insurance Commissioner to transact business in the State of West Virginia as permitted and authorized under Chapter 33, Article 31 and Article 32 of the West Virginia Code as well as relevant federal law.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning October 13, 2006 and ending December 31, 2010, was conducted in accordance with West Virginia Code §33-2-9(c) and West Virginia Code §33-31-8 by the Insurance Commissioner.

2. On June 1, 2011, the examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about June 14, 2011, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On June 17, 2011, the Company received a copy of the REPORT OF FINANCIAL EXAMINATION.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

5. By letter dated July 1, 2011, management of the Company indicated that they had reviewed the REPORT OF FINANCIAL EXAMINATION and concurred with the findings of the examination. A copy of the Company's response letter of July 1, 2011, is attached hereto as Exhibit B. By the letter

dated July 1, 2011, the Company acknowledges that all issues so disputed with WVOIC, if any, concerning this Report of Financial Examination were resolved and the Company concurs with the Report of Financial Examination.

CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection, the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

ORDER

It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the REPORT OF FINANCIAL EXAMINATION of MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC., attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC., by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC., shall file with the Insurance Commissioner, within thirty (30)

days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).

4. It is **ORDERED** that MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC., take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION and shall demonstrate compliance to the satisfaction of the Insurance Commissioner.

5. That MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC., waives any right to any notice, administrative hearing or appeal there from for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC., reserves herein its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

Entered this _____ day of _____, 2011.



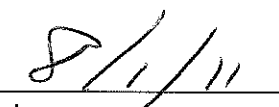
Michael D. Riley
Acting Insurance Commissioner
State of West Virginia

THE PARTIES DO SO AGREE:

**OFFICES OF THE INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA**

By: 

Andrew R. Pauley, Associate Counsel
Attorney Supervisor, APIR



Date

MOUNTAINEER FREEDOM RISK RETENTION GROUP, INC.

BY: J. MATTHEW HORGAN
[Print Name]

Signed: 

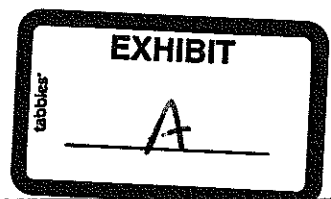
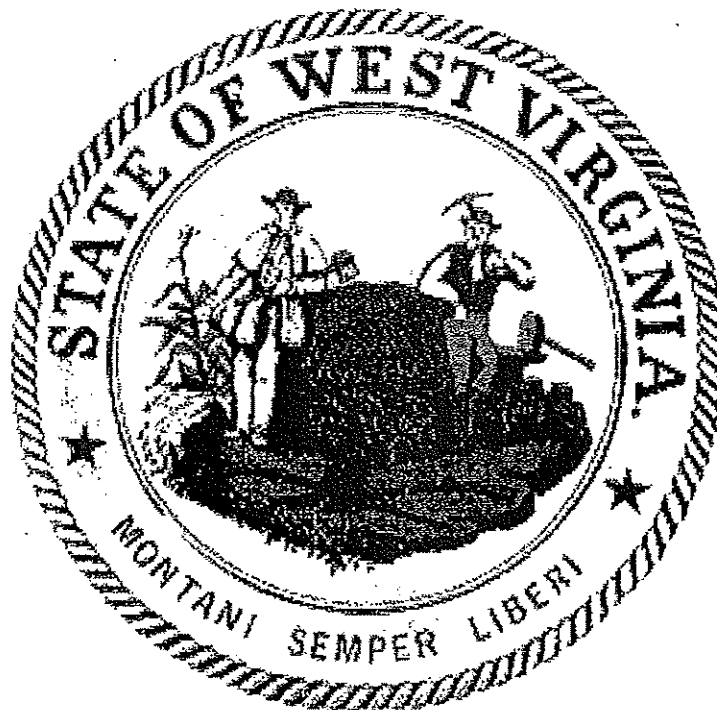
Its: ASST. SECRETARY

Dated: JULY 28, 2011

REPORT OF FINANCIAL EXAMINATION
OF
MOUNTAINEER FREEDOM RISK RETENTION GROUP

As of

December 31, 2010



**REPORT ON THE STATUTORY FINANCIAL EXAMINATION OF
MOUNTAINEER FREEDOM RISK RETENTION GROUP AS OF DECEMBER 31, 2010**

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June 1, 2011

Honorable Jane L. Cline
West Virginia Insurance Commissioner
1124 Smith Street, 4th Floor
Charleston, West Virginia 25301

Honorable Mary Taylor
Lt. Governor & Director
Ohio Department of Insurance
50 West Town Street, Third Floor,
Suite 300
Columbus, OH 43215

Honorable Commissioner and Director;

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner, an examination has been made of the affairs and financial condition of:

Mountaineer Freedom Risk Retention Group, Inc.
1 Medical Park
Wheeling, West Virginia, 26003

hereinafter referred to as the "Company".

The interview phase of the examination was conducted at the Company's main statutory home office located at 1 Medical Park, Wheeling, WV 25301 and at the Company's primary service provider's operations related to the financial reporting function located at One Poston Road Suite 155, Charleston, SC 29407.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

Pursuant to W. VA Insurance Code §33-31-8, a full scope examination of the Mountaineer Freedom Risk Retention Group, Inc. was performed. The Company is a West Virginia licensed captive insurance company, incorporated October 19, 2006 and received its license to conduct the business of insurance on October 16, 2006, from the West Virginia Offices of the Insurance Commissioner, ("WVOIC"). Since receiving a license to conduct business, the Company has not had an examination of any kind conducted by the WVOIC. This is the Company's first financial examination.

A multi-state examination was conducted by representatives of the WVOIC. The examination covered the organizational period of October 13, 2006 through December 31, 2010 and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted pursuant to the instructions, procedures and guidelines prescribed by the WVOIC and in accordance with the National Association of Insurance Commissioners' Financial Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the company and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to and required by West Virginia Code.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were found as a result of the examination. There are five recommendations that are made and can be found under the section "Summary of Recommendations".

SUBSEQUENT EVENTS

The review of Company transactions and activities subsequent to the examination date revealed one material item worth noting in this report. In September 2008, the Company agreed to advance \$97,375 to Captive Insurance Management Group (CIMG) and chose to classify it as prepaid services. CIMG is one of the Company's primary service providers. The transaction was unusual in nature and not disclosed in the annual

statements of 2008-2010. CIMG's owner, Mark Otto obtained an insurance policy to provide the necessary collateral in case Mr. Otto passed away during the period of repayment. In March 2011, evidence was reviewed by the Examiner in Charge that the prepayment was paid back in full with credit given to compensate the Company for interest.

COMPANY HISTORY

Mountaineer Freedom RRG, Inc. ("the Company") was incorporated by the Secretary of the State of West Virginia on October 19, 2006 and received its Certificate of Authority on October 16, 2006 to transact business. The Company began writing professional and general liability insurance on November 1, 2006. The Company is a risk retention group as defined by the Federal Liability Risk Retention Act of 1986 and in Chapter 33, Article 31 of the West Virginia Code and is licensed and registered to write business in West Virginia and Ohio. The Company's ultimate parent is Mountaineer Freedom Physicians and Hospital Association ("Association") located in Wheeling, West Virginia. As a captive risk retention group, the Company is subject to maintain unimpaired paid in capital of at least \$500,000 and unimpaired paid in surplus of at least \$500,000 pursuant to W. VA Insurance Code §33-31-4(a)(4) and §33-31-4(b)(4) respectively.

The Company was formed in response to an unstable professional liability insurance marketplace to insure Wheeling Hospital and its affiliated physicians and subsidiaries. The program insures members of the Association which include Wheeling Hospital and its affiliated physicians and Belmont Community Hospital, a subsidiary of Wheeling Hospital.

On December 1, 2006, the Company entered into a loss portfolio transfer agreement with Wheeling Hospital, whereby the Company assumed the remaining liability for losses and loss adjustment expenses relating to general and professional liability for the period from December 31, 1987 through December 1, 2006, with a limit of \$1,000,000 per occurrence and \$3,000,000 in aggregate for all insureds. As consideration under this transaction, the Company received a total of \$9,405,687, which is equivalent to the amount of the initial reserves transferred under the agreement. The Company can assess Wheeling Hospital one or more retrospective premium assessments as deemed necessary.

In December 2007, the Company received approval to expand operations into Ohio with the inclusion of Belmont Community Hospital located in Belmont, Ohio.

AGGREGATE WRITE INS FOR OTHER THAN SPECIAL SURPLUS FUNDS

The Company has \$2,000,000 of other than special surplus funds in the form of an irrevocable letter of credit. This was infused by the Association. Additional capital is raised in the form of dues from Wheeling Hospital and its affiliated physicians.

PAID IN SURPLUS

Since inception in 2006, the Company has had gross paid in and contributed surplus of \$4,946,024. The two main reasons for the increase of this amount year to year is the forgiveness of debt derived from the positive development surrounding the loss portfolio transfer and additional contributed surplus from members. To the extent that there is favorable development with the loss portfolio agreement, the Company will pay the excess amount back to Wheeling Hospital unless it is forgiven. For the years ended December 31, 2010 and 2009, there was favorable development of \$382,886 and \$722,839, respectively, which Wheeling Hospital decided to forgive and treated as additional paid-in surplus.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, and the recorded minutes of the Board of Directors and its committees meetings were examined for statutory compliance. The Company appears to comply with all reviewed statutory requirements and adheres with the provisions of its Articles of Incorporation and Bylaws.

MANAGEMENT AND CONTROL

Operational control of this entity is 100% vested in the insureds which in turn are members of the risk retention group. The Mountaineer Freedom Physician & Hospital Association, Inc. (hereinafter "the Association") serves as the immediate parent of the Company and appoints the Company's Board of Directors. Each class of members of the Association are entitled to appoint representatives to the Association Board, and correspondingly, to the Board of the Company. Voting strength at the Association and Company levels is based on the total value of the premium and capital/surplus contributions of the member/insured to the Company. Membership in the Association is a condition of participation in the Company.

The Articles of Incorporation and Bylaws place the ultimate management and control of the Company's affairs with the board of directors. The following is the listing of directors and officers with their principal capacity as of December 31, 2010:

Directors:

Directors

James B. Murdy
Vincent Deluzio, Esq.

Angelo Georges, M.D.

Principal Capacity

Chief Financial Officer, Wheeling Hospital
Private Attorney - Pittsburgh, PA.
(Law practice is corporate finance and mergers and acquisitions.)
Medical Doctor - Private practice

Officers:

<u>Officers</u>	<u>Principal Capacity</u>
James B. Murdy	President and Treasurer
Angelo Georges, M.D.	Vice President
Bruce Archer, Esq.	Secretary
Patti Pallito	Assistant Treasurer and Secretary
Matthew Horgan, Esq.	Assistant Secretary
Wilber McCoy Otto, Esq.	General Counsel

CORPORATE GOVERNANCE

As part of understanding the Company and the underlying corporate governance, the exam team met with one board member, key officers and two representatives of the Company's primary service providers in Wheeling, West Virginia and Charleston, South Carolina.

The following key personnel and primary service providers were interviewed to gain a better understanding of the Company in Wheeling, WV:

- James B. Murdy – President and Treasurer
- Bruce Archer, Esq. - Secretary
- Matthew Horgan, Esq. – Assistant Secretary and claims administrator for the Company.
- Mark Otto – Insurance Broker for Captive Insurance Management Group

The following primary service provider personnel were interviewed to gain a better understanding of the Company's operations in Charleston, South Carolina:

- Kelly Bourne – Aon Insurance Managers (USA) Inc.
- Mike Coulter – Aon Insurance Managers (USA) Inc.

Examiner in Charge (EIC) reviewed walk-through, underlying corroborative inquiry supporting documentation and substantive testing of those key functional areas by the Company's outside CPA firm, Saslow, Lufkin and Buggy.

Overall corporate governance was determined to be adequate. Based on the EIC's confidence in management and the board and the competency of the external CPA review of internal controls and substantive testing, EIC relied extensively on the external CPA work as part of the risk focused exam approach.

FIDELITY BOND AND OTHER INSURANCE

The Company does not have a fidelity bond policy, pursuant to W. VA Insurance Code §33-31-8 and NAIC Examiner Handbook guidance, it is recommended the Company purchase fidelity bond coverage in the amount of \$175,000 derived from its own asset and income amounts.

TERRITORY AND PLAN OF OPERATION

The Company insures members of the Mountaineer Freedom Physicians and Hospital Association which include Wheeling Hospital and its affiliated physicians and Belmont Community Hospital, a subsidiary of Wheeling Hospital. These two entities are located in Wheeling, WV and Belmont, OH respectively. The Company writes medical professional and general liability insurance. In 2010, direct premium written for medical professional liability was \$6,368,174 and general liability was \$230,970.

The Company has no employees and as part of the Company plan of operations, the Company relies heavily on the utilization of primary service providers to conduct the business affairs of the Company. On December 31, 2010, the Company utilizes the following primary service providers:

AON INSURANCE MANAGERS (AIM)

AIM is responsible for the following:

- Monthly accounting entries
- Financial statements preparation, quarterly and annual NAIC filings
- Coordination of the external CPA annual audit and regulatory compliance issues.
- Coordination of the day to day activity and financial reporting functions and provides insurance guidance and consulting.

The key personnel that administer the activities for AIM are Kelly Bourne, Mike Coulter and Patti Pallito.

CAPTIVE MANAGEMENT INSURANCE GROUP (CIMG)

CIMG is responsible for the following:

- Policy issuance
- Maintenance and premium collection.
- Provide AIM with details on the carrier terms and conditions on the underlying policies that Company insures.
- Ensure all policy wordings are current, accurate, and on file.
- Ensure reinsurance agreements are current, accurate, and on file.
- All regulatory compliance issues and corporate duties are attended to and the associated documentation is in place.

The key person that administers the activities for CIMG is Mark Otto.

DICKIE, MCCAMEY & CHILCOTE, P.C. (DMC)

DMC is responsible for the following:

- Maintain all incident reports
- Conduct incident follow-up investigations
- Calculate loss runs
- Provide reserve accountings
- Provide state regulatory agency reporting
- Provide loss prevention and physician education services.
- Maintain the corporate records book
- Prepare the documentation associated with board of directors and shareholder actions.
- Perform outside general counsel services. (Wilbur Otto)

The key personnel that administer the activities for DMC are Matthew Horgan, Wilbur Otto, Jo Ann Galasso and Mary Ann Brickell.

AON GLOBAL RISK CONSULTING, INC. (AGRC)

AGRC is responsible for the following:

- Prepare periodic, but not less than annual, actuarial studies for the program losses and the Loss Portfolio Transfer loss projections.
- Prepares on an annual basis forecasting and rating analyses. Mountaineer Freedom, RRG adjusts its liabilities to the results of these analyses throughout the reporting year.

The key person that administers these activities for AGRC is Charles Kullman.

SASLOW, LUFKIN AND BUGGY (SLB)

SLB is responsible for the following:

- Review of the financials on a quarterly and/or monthly basis to estimate any necessary tax payments. This review is coordinated by Stacy Riley
- Perform an external CPA audit of the Company.

The key personnel that administer these activities for SLB is Stacy Riley for the tax work and Pamela Cote for the annual external CPA audit work.

REINSURANCE

The Company maintains an excess of loss reinsurance agreement with ACE American Insurance Company. The reinsurer is rated as A+ by A.M. Best as of December 31, 2010 and is an authorized insurer in West Virginia and Ohio. The agreement provides coverage for medical professional liability claims in excess of loss for each loss event of \$10,000,000 and \$10,000,000 in aggregate on a claims made basis. In addition, the agreement provides coverage for general liability, employer's liability and auto liability claims in excess of loss for each loss event of \$10,000,000 and \$10,000,000 in aggregate on an occurrence basis.

After a compliance review of the reinsurance agreement with Statutory Statement of Accounting Principle #62R, the reinsurance agreement does transfer risk. However, it was determined that the agreement had the following exceptions to note:

- Per SSAP 62R Paragraph 23, it was found that the reinsurance agreement was not signed (executed) by all parties. A representative for Ace American signed the agreement; however, an authorized representative for the Company did not sign the agreement. Pursuant to W. Va Code §33-31-8 and SSAP 62R Paragraph 23, it is recommended the Company have an authorized representative of the Company sign and execute the reinsurance agreement with Ace American Insurance Company.
- Per SSAP 62R Paragraph 6, it was found that the reinsurance agreement did not adequately address the payment terms between the parties. Pursuant to W. Va Code §33-31-8 and SSAP 62R Paragraph 6, it is recommended the Company have ACE American Insurance Company add language to the reinsurance agreement that will clearly address the payment terms of the ceded premium.
- Per SSAP 62R Paragraph 8, it was found that the reinsurance agreement does not address reporting of premium and losses on a quarterly basis unless there is no activity in the period. Pursuant to W. Va Code §33-31-8 and SSAP 62R Paragraph 6, it is recommended the Company have ACE American Insurance Company add language to the reinsurance agreement that will clearly address reporting of premiums and losses on a quarterly basis unless there is no activity during the contract period.

ACCOUNTS AND RECORDS

Since inception in 2006, the Company has maintained its statutory home office in Wheeling, West Virginia. In 2009, the primary location of books and records moved from Burlington, Vermont to Charleston, South Carolina. This was due to Aon Insurance Managers which is the Company's primary service provider for financial reporting moving their financial reporting related personnel. As of December 31, 2010, it was found that the Company maintains its primary books and records in

Charleston, South Carolina and also Pittsburgh, Pennsylvania. The books and records were found to be maintained in a manner in which the financial condition was readily verifiable.

CHARLESTON, SOUTH CAROLINA

AIM administers the financial reporting function and corporate records at this location. The Company's general ledger and financial records are maintained on the MS Great Plains software system and Microsoft Office Excel software. The Company's accounting procedures, practices and account records were reviewed and tested to the extent necessary. The trial balance prepared from the Company's general ledger and work papers for the year ended December 31, 2010, was agreed to the Annual Statement.

PITTSBURGH, PENNSYLVANIA

DMC administers the Company's claims administration through using an internally developed computerized claims management system which tracks loss reserves and loss payments. The claim system was created by and is maintained by DMC and only approved personnel have access to the system and are able to enter information. The information entered is backed up and supported by paper file materials maintained at DMC.

Per the external CPA review of the Company's SAS 70 reports, the Company has a disaster recovery plan focused primarily on recovery of computerized functions. The plan is audited and tested annually.

STATUTORY DEPOSITS

In lieu of a statutory deposit, the WVOIC requires the Company to maintain a \$2,000,000 irrevocable letter of credit. The letter of credit is maintained at PNC Bank in Pittsburgh, PA. The condition of withdrawal can only happen in the event of Company's default and there were no compensating balances arrangements noted.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the WVOIC and by the National Association of Insurance Commissioners as of December 31, 2010. No statutory examination adjustments were made.

STATEMENT OF FINANCIAL POSITION – ASSETS

<u>Assets</u>	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Bonds (Note 1)	\$ 17,531,557	\$ 0	\$ 17,531,557
Common Stock	660,695	0	660,695
Cash \$72,251, cash equivalents \$0 and short-term investments \$0	72,251	0	72,251
Investment income due and accrued	101,794	0	101,794
Uncollected premiums	345,337	0	345,337
Aggregate write-ins for other than invested assets	2,000,000	0	2,000,000
Total Assets	<u>\$ 20,711,634</u>	<u>\$ 0</u>	<u>\$ 20,711,634</u>

STATEMENT OF FINANCIAL POSITION — LIABILITIES, CAPITAL AND SURPLUS

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
<u>Liabilities</u>			
Losses	\$ 7,562,237	\$ 0	\$ 7,562,237
Losses adjustment expenses	2,983,751	0	2,983,751
Other expenses	191,944	0	191,944
Taxes, licenses and fees	160,004	0	160,004
Unearned premiums	10,844	0	10,844
Aggregate write-ins for liabilities	<u>1,131,390</u>	<u>0</u>	<u>1,131,390</u>
Total Liabilities	12,040,170	\$ 0	12,040,170
<u>Surplus</u>			
Aggregate write-ins for other than special surplus funds	2,000,000	0	2,000,000
Gross paid in and contributed surplus	4,946,024	0	4,946,024
Unassigned funds (surplus)	<u>1,725,440</u>	<u>0</u>	<u>1,725,440</u>
Total Capital and Surplus	8,671,464	0	8,671,464
<u>Total Liabilities and Surplus</u>	<u>\$ 20,711,634</u>	<u>\$ 0</u>	<u>\$ 20,711,634</u>

Note: As a captive risk retention group, the Company is subject to maintain unimpaired paid in capital of at least \$500,000 and unimpaired paid in surplus of at least \$500,000 pursuant to W. Va. Insurance Code §33-31-4(a)(4) and §33-31-4(b)(4) respectively. The Company's \$2 million dollar letter of credit exceeds W. Va. Insurance Code §33-31-4(a)(4) requirement and the Company's gross paid in and contributed surplus of \$4,946,024 exceeds W. Va. Insurance Code §33-31-4(b)(4) requirement.

STATEMENT OF INCOME

	Per Annual Statement	Statutory Examination Adjustments	Per Statutory Examination
<u>Underwriting Income</u>			
Premiums earned	\$ 6,290,456	\$ 0	\$ 6,290,456
Losses incurred	2,787,955		2,787,955
Losses adjustment expenses incurred	1,184,465	0	1,184,465
Other underwriting expenses incurred	891,248	0	891,248
Total underwriting deductions	<u>4,863,668</u>	<u>0</u>	<u>4,863,668</u>
Net underwriting gain	1,426,788	0	1,426,788
<u>Investment Income</u>			
Net investment income earned	237,049	0	237,049
Net realized capital gains (losses)	<u>(14,906)</u>	<u>0</u>	<u>(14,906)</u>
Net investment gain	222,143	0	222,143
<u>Other Income</u>			
Net gain (loss) from agents' or premium balances charged off	0	0	0
Finance and service charges not included in premiums	0	0	0
Aggregate write-ins for miscellaneous income	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Income	0	0	0
Net income before dividends to policyholders and federal income taxes	1,648,931	0	1,648,931
Federal income taxes incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net income (loss)	<u>\$ 1,648,931</u>	<u>\$ 0</u>	<u>\$ 1,648,931</u>

RECONCILIATION OF CAPITAL & SURPLUS

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital and surplus as of December 31 prior year	\$ 6,574,462	\$ 5,890,105	\$ 4,228,350	\$ 2,185,442	\$ -
Net income (loss)	1,648,931	(56,535)	44,644	(24,233)	(144,371)
Net transfers (to) Protected Cell accounts	0	0	0	0	0
Change in net unrealized capital gains and (losses) less capital gains tax of \$ 0	0	0	0	0	0
Change in net unrealized foreign exchange capital gain (loss)	0	0	0	0	0
Change in net deferred income tax	0	0	0	(14,033)	14,033
Change in nonadmitted assets	27,405	(27,405)	0	0	0
Change in unauthorized reinsurance	0	0	0	0	0
Change in treasury stock	0	0	0	0	0
Change in surplus notes	0	0	0	0	0
Cumulative effect of changes in accounting principles	0	0	0	0	0
Capital changes:					
Paid In	0	0	0	0	
Transferred from surplus (Stock Dividend)	0	0	0	0	
Transferred to surplus	0	0	0	0	
Surplus adjustments:					
Paid In	420,666	771,360	1,672,825	2,081,174	315,780
Transferred to capital (Stock Dividend)	0	0	0	0	
Transferred from capital	0	0	0	0	
Dividends to stockholders	0	0	0	0	
Aggregate write-ins for gains and losses in surplus	0	(3,063)	(55,714)	0	2,000,000
Net change in capital and surplus for the year	2,097,002	684,357	1,661,755	2,042,908	2,185,442
Capital and surplus as for current year:	<u>\$ 8,671,464</u>	<u>\$ 6,574,462</u>	<u>\$ 5,890,105</u>	<u>\$ 4,228,350</u>	<u>\$ 2,185,442</u>

Note: Since inception in 2006, the Company has had gross paid in and contributed surplus of \$4,946,024. The two main reasons for the increase of this amount year to year is the forgiveness of debt derived from the positive development surrounding the loss portfolio transfer and additional contributed surplus from members.

COMMENTS ON FINANCIAL STATEMENT ITEMSBonds\$ 17,531,557

After review of the Company's custodial agreement with PNC Bank, it was found that the custodial agreement does not contain all contract provisions as set forth in the NAIC Examiners Handbook. Pursuant to W. Va. Insurance Code §33-31-8 and the NAIC Examiner Handbook guidance, it is recommended the Company and its custodian modify or supplement the custodial agreement to include the contract provisions as set forth in the NAIC Examiners Handbook.

SUMMARY OF RECOMMENDATIONS

- The Company does not have a fidelity bond policy, pursuant to W. Va. Insurance Code §33-31-8 and NAIC Examiner Handbook guidance, it is recommended the Company purchase fidelity bond coverage in the amount of \$175,000 derived from its own asset and income amounts.
- Per SSAP 62R Paragraph 23, it was found that the reinsurance agreement was not signed (executed) by all parties. A representative for Ace American signed the agreement; however, an authorized representative for the Company did not sign the agreement. Pursuant to W. Va. Code §33-31-8 and SSAP 62R Paragraph 23, it is recommended the Company have an authorized representative of the Company sign and execute the reinsurance agreement with Ace American Insurance Company.
- Per SSAP 62R Paragraph 6, it was found that the reinsurance agreement did not adequately address the payment terms between the parties. Pursuant to W. Va. Code §33-31-8 and SSAP 62R Paragraph 6, it is recommended the Company have ACE American Insurance Company add language to the reinsurance agreement that will clearly address the payment terms of the ceded premium.
- Per SSAP 62R Paragraph 8, it was found that the reinsurance agreement does not address reporting of premium and losses on a quarterly basis unless there is no activity in the period. Pursuant to W. Va. Code §33-31-8 and SSAP 62R Paragraph 6, it is recommended the Company have ACE American Insurance Company add language to the reinsurance agreement that will clearly address reporting of premiums and losses on a quarterly basis unless there is no activity during the contract period.
- Pursuant to W. Va. Insurance Code §33-31-8 and the NAIC Examiner Handbook guidance, it is recommended the Company and its custodian modify or supplement the custodial agreement to include the contract provisions as set forth in the NAIC Examiners Handbook.

RECEIVED

JUN 10 2011

WV INSURANCE COMMISSION
FINANCIAL CONDITIONS

EXAMINER ACKNOWLEDGEMENT AND SIGNATURE

The examiner in charge would like to acknowledge that the Company's personnel were cooperative and helpful during the examination process, most notably Ms. Kelly Bourne.

**EXAMINERS AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED
IN AN EXAMINATION**

State of West Virginia
County of Kanawha

Jonathan C. Landry, being duly sworn, states as follows:

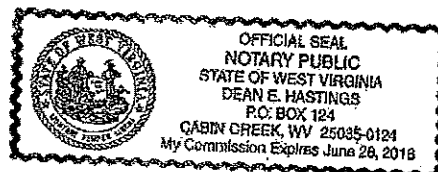
1. I have authority to represent the West Virginia Offices of the Insurance Commissioner in the examination of Mountaineer Freedom Risk Retention Group.
2. The West Virginia Offices of the Insurance Commissioner are accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report and the examination of Mountaineer Freedom Risk Retention Group was performed per instruction of the Chief Examiner and in a manner consistent with the standards and procedures required by the West Virginia Offices of the Insurance Commissioner.

That affiant says nothing further

Jonathan C. Landry, CFE
Jonathan C. Landry, CFE

Subscribed and sworn before me by Jonathan C. Landry on this
13 day of June 2011.

Dean E. Hastings
Notary Public



My commission expires June 26, 2016 (Date)

Mountaineer Freedom Risk Retention Group, Inc.
One Poston Road, Suite 155
Charleston, SC 29407

July 1, 2011

Ms. Jane L. Cline
West Virginia Insurance Commissioner
Executive Office
P.O. Box 50540
Charleston, WV 25305-0540

Re: 2010 Full Scope Examination

Dear Ms. Cline:

Please find the responses to the draft Report on Examination as of December 31, 2010 for Mountaineer Freedom Risk Retention Group, Inc. dated June 13, 2011.

SUMMARY OF RECOMMENDATIONS

1. Fidelity Bond – Management has assessed the relative risk of the internal controls in place at Wheeling Hospital and Aon Insurance Managers (USA) Inc. Management feels these are sufficient and do not warrant the purchase of fidelity bond coverage at this time.
2. Reinsurance Agreement
 - a. Execution- The reinsurance agreement was issued as a reinsurance certificate by the reinsurer and is not intended to be signed by the reinsured. This is the standard industry practice and prevalent practice with respect to excess PL/GL reinsurance in the health care field.
 - b. Payment Terms- Premiums are due 100% within 30 days from the end of the month in which the premium is effective. Please refer to the reinsurance binder (copy attached).
 - c. Reporting of Premium and Losses- The reporting of premium and losses on a quarterly basis is more suited for a first-dollar reinsurance agreement. Such an arrangement is not practicable due to the nature of this coverage. It attaches excess of individual large claims which typically are not finally known, resolved and paid until years later. The coverage for the 2010 policy year is \$10mm excess of \$5mm each loss.
3. Custodial Agreement – Management will work with the custodian, PNC, to modify and/or supplement the agreement to meet all of the criteria as set forth in the NAIC examiners handbook.

If you have any questions or concerns please contact me at (843)-614-3132 or at kelly.bourne@aon.com.

Best Regards,



Kelly Bourne
Senior Account Manager
Aon Insurance Managers (USA) Inc.
As Managers for Mountaineer Freedom Risk Retention Group, Inc.

cc: James B. Murdy- Wheeling Hospital
J. Matthew Horgan- Dickie, McCamey & Chilcote, P.C.

